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Coastal Empire Economic Monitor

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## Coastal Empire Economic Monitor, 4th Quarter, 2020

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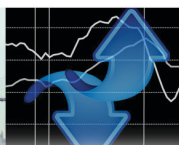
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# Coastal Empire ECONOMIC MONITOR

## ECONOMY BOUNCING BACK

The Savannah metro area economy continued to bounce back during the closing quarter of 2020. Total regional employment rebounded strongly along with continued strength in port activity and logistics, but the tourism industry continues to struggle. High-contact service sector firms remain hobbled by the pandemic while manufacturing steadied. Growth was robust in the business and professional services sector and likely reflects migration of workers from the tourism sector.

The business forecasting index rebounded as well. Improving conditions in the pandemic-weakened labor market, along with favorable momentum in the housing market, powered the turnaround in the index.

Employment growth will slow in the first quarter as compared to the gains reported for the fourth quarter. More substantial recovery will be delayed until the regional hospitality industry, and the service sector in general, returns to early 2020 levels. Little will change in the forecast for those sectors: slow growth until the population begins to approach herd immunity from Covid-19.

## Regional Economy Recovering

The business index for the Savannah metro economy soared 6.6% (29% annualized) during the fourth quarter. The index increased to 176.0 from 165.1 (revised). Across-the-board growth in all eight underlying indicators spurred the rebound. Port activity, boardings at the airport, electricity sales, consumer confidence, and retail trade all registered double-digit quarterly growth, from 14% to 20%. Hotel room rentals rebounded 8.4% while overall employment growth was 3.4% (annualized growth of 14%).

Employment in Savannah's three-county metro area averaged 182,700 for the quarter, a gain of 6,000 workers. From the low recorded in April of 159,600, employment recovered to 185,000 in

December. The December job figure is 99% of its pre-pandemic level (see chart on next page). Business and professional services employment surged nearly 10%, adding 2,100 workers. Employment in this sector is 5,000 workers above its pre-pandemic level and likely reflects in-migration from the tourism sector, which remains 4,000 workers below its pre-pandemic level. Retail trade added 1,200 workers (+5.9%).

The goods-producing sector added 500 workers. Manufacturing recovered 200 workers and rose to 17,600, while construction added 400, rising to a post-Great Recession peak of 8,600 workers. The regional logistics sector added 900 jobs (+5.7%) and employs 16,100 workers. Logistics employment continued to grow during the year and is 10% higher than before the pandemic struck the economy.

The tourism economy is beginning to improve, but activity remains well below pre-pandemic levels. The quarterly gain in employment was 1,100 workers. As of December, the sector bounced back to 22,300 workers after falling to 13,600 in April, a recovery of 8,700 jobs. Yet, employment remains at 81% of its pre-pandemic peak. Hotel room rentals

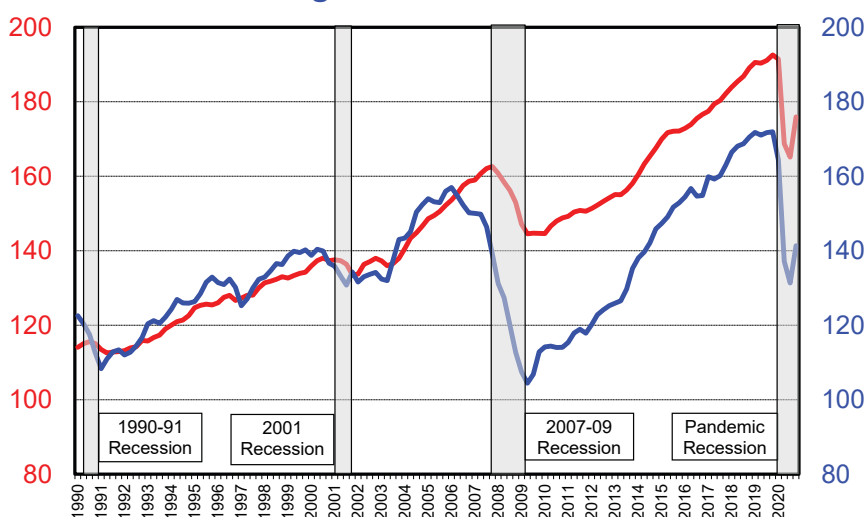
increased 8.4% from the previous quarter but remain down 34% from fourth quarter levels of a year ago. Airplane boardings remain down 58% from a year ago but did grow 16% from the third to fourth quarters. Automobile rentals also remain down about 50% from previous year levels.

Hourly wages in the private sector decreased 2.8% to \$22.56 from \$23.22 in the previous quarter but remain on a very modest upward trend dating to late 2018. The length of the private sector workweek lengthened 3.8% (+1.2 hours) to 33 hours and is now back on trend after the pandemic sliced about two hours off the workweek.

## U.S. Growth Remains Robust

U.S. economic output (gross domestic product, GDP) expanded at a rate of 4.1% in the fourth quarter, following a record-breaking surge of 33.4% in the third quarter pandemic rebound. The robust growth was spurred almost equally by residential housing investment, business spending on capital goods, and consumer spending on services, particularly healthcare services. Consumer spending on goods remains constrained and declined

## Savannah Metro Business Index Leading and Coincident Series



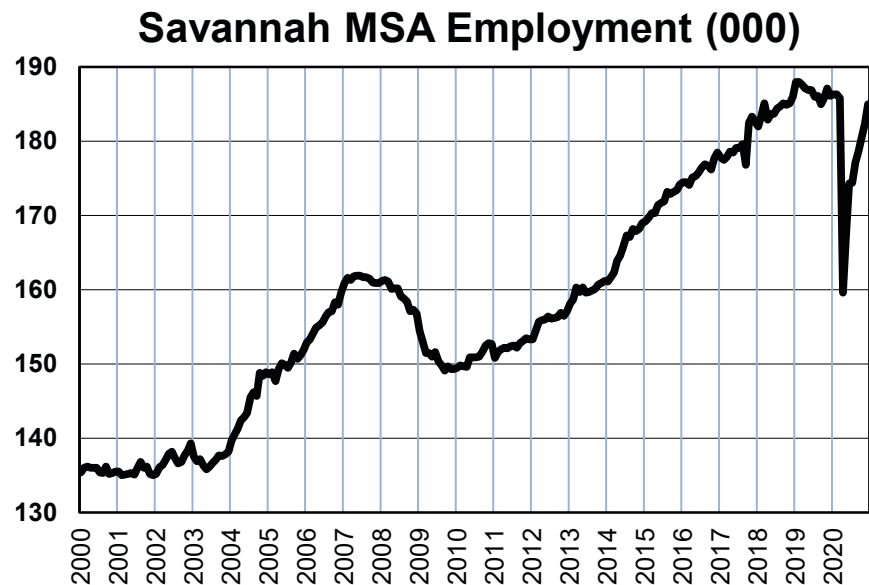
modestly after a 10% growth in the third quarter. A booming nationwide housing market is reflected in the 33.5% increase in residential construction. The nation's international trade continues to rebound with exports up 22% and imports up 29.5%. Government spending declined at a rate of 1.2%, a result of decreased federal government nondefense expenditures (-8.4%). GDP growth in 2021 is forecasted at nearly 5% by a panel of 60 economists surveyed by The Wall Street Journal (WSJ).

The Federal Reserve is maintaining current policies to support economic recovery. The near-zero interest rate policy is expected through at least 2021 until a more robust recovery is achieved. Continued purchases of U.S. treasury paper and mortgage-backed securities, at a monthly rate of \$80 billion and \$40 billion, respectively, is planned for the foreseeable future.

The concern of rising inflation in 2021 is modest but increasing. Fiscal stimulus is supporting aggregate demand, while household savings rates out of disposable income have doubled to about 14%. The combination of another round of massive fiscal stimulus expected shortly out of Congress and more robust consumer spending in 2021 as the pandemic recedes is setting the stage for an increase in inflation. Spot shortages caused by supply chain bottlenecks are likely to contribute to rising inflation that could breach the Fed's preferred 2% target. The WSJ forecast survey projects inflation at 2.8% by mid-2021.

## Regional Recovery Will Continue

The Savannah area business forecasting index rebounded 7.6% (34% annualized) during the fourth quarter of 2020. Further strong recovery of the index is expected in the first quarter of 2021 because of the data smoothing process applied to the underlying leading indicators.



A substantial decline in the flow of the newly unemployed into the ranks of the unemployed, combined with the 6,000-person gain in the workforce, means the labor market's health is rapidly recovering from the pandemic. Strength in the regional housing market is continuing. While the pace of construction moderated mildly during the fourth quarter, the overall health of the housing market remains strong.

The seasonally adjusted number of single-family homes permitted for construction declined 5.3%, dropping to 656 units from 692 in the previous quarter. The fourth quarter number, however, was 13% higher than the average number of homes permitted during the previous four quarters. Average valuation per single family unit increased 1.4% to \$264,600 from \$260,900.

In the labor market, the average number of monthly initial claims for unemployment insurance (UI) decreased by 55% to 5,070 from 11,218 in the third quarter. The

seasonally adjusted unemployment rate fell to 5.4% from 6.9% in the previous quarter. The comparable unemployment rate from the previous year was 2.8%.

Near-term (six months) prospects for the Savannah metro economy remain muted. The easiest gains in the labor market have been recovered. Future gains will be favorable but smaller in magnitude because of the drag inherent in the subdued recovery of the regional tourism industry. Strength in the housing market, logistics industry, and land development will support the regional economy, but constrained growth in tourism and high-contact services will limit upside potential in the next six months.

More robust recovery is anticipated in the second half of 2021, as the general population hopefully makes substantial progress toward herd immunity from Covid-19. Get vaccinated!

## A Note From the Analyst

The *Economic Monitor* is available by email and at the Center's website ([GeorgiaSouthern.edu/parker/big/big-programs/cbaer/](http://GeorgiaSouthern.edu/parker/big/big-programs/cbaer/)). If you would like to receive the *Monitor* by email, please send a 'subscribe' message to [CBAER@georgiasouthern.edu](mailto:CBAER@georgiasouthern.edu).



## About the Indicators

The *Economic Monitor* provides a continuously updated quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.